

**LEGISLATIVE SERVICES AGENCY
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FISCAL IMPACT STATEMENT

LS 7358

BILL NUMBER: HB 1529

NOTE PREPARED: Jan 13, 2007

BILL AMENDED:

SUBJECT: Charity Gaming.

FIRST AUTHOR: Rep. Denbo

FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: X **GENERAL**
DEDICATED
FEDERAL

IMPACT: State

Summary of Legislation: The bill authorizes qualified organizations to engage in electronic gaming under the Charity Gaming Laws. The bill imposes an annual excise tax of 40% of the qualified organization's net proceeds and specifies the permitted uses of the remaining proceeds.

Effective Date: July 1, 2007.

Explanation of State Expenditures: The bill establishes a new annual Electronic Gaming Operation License for qualified charity gaming organizations. The bill authorizes the Indiana Gaming Commission (IGC) to issue the annual license and regulate the distribution and operation of electronic gaming devices (EGDs) by charity gaming organizations. Under the bill, only initial first-year license fees would be paid into the Charity Gaming Enforcement Fund. However, based on recent annual Fund balances transferred to the Build Indiana Fund (BIF), there should be sufficient charity gaming revenue available to defray the costs of administering the Electronic Gaming Operation License. In FY 2006, \$3.5 M in surplus charity gaming revenue was transferred to the BIF.

Explanation of State Revenues: *License Fees:* The bill establishes an Electronic Gaming Operation License that allows bona fide civic, educational, political, religious, senior citizens, or veterans organizations to operate up to five electronic gaming devices (EGDs) at any time on the premises owned or leased by the organization and regularly used for the activities of the organization. The bill sets an initial license fee and annual renewal license fee at \$500 per EGD operated by the organization. This fee would generate \$500,000 annually for every 1,000 EGDs licensed. The number of organizations that would potentially apply for a license, and the potential number of EGDs that may be licensed, is indeterminable. There are currently about 700 social and fraternal clubs that hold annual bingo licenses that allow the organization to conduct bingo,

sell pull tabs, and conduct other games throughout the year. If all of these social and fraternal clubs license one EGD, license fee revenue would total about \$350,000 annually. If all of these permit holders license five EGDs, license fee revenue would total about \$1.75 M per year. It is important to note that the number of social and fraternal clubs statewide could be four to five times the number that have obtained annual bingo licenses based on the number of social and fraternal clubs that hold alcoholic beverage retail permits. Thus, the fiscal impact of the license fee could be much higher if such organizations choose to operate EGDs.

Revenue from initial first-year license fees would be distributed to the Charity Gaming Enforcement Fund Money in this Fund pays the charity gaming administrative costs incurred by the Indiana Gaming Commission (IGC). Revenue remaining in the Fund after payment of administrative costs is distributed quarterly to the Build Indiana Fund. Revenue from annual renewal license fees is distributed to the state General Fund.

EGD Excise Tax: The bill imposes an excise tax equal to 40% of the net proceeds received by an organization from EGD wagering. Revenue from the tax would be distributed to the state General Fund. (Net proceeds is the total receipts from EGD wagering minus the amount paid out in winnings to gamblers minus EGD operating expenses, license fees, and advertising expenses.) Based on average performance experienced in other states that allow EGDs to be operated in bars, taverns, lounges, social and fraternal clubs, and other restricted sites, daily net proceeds per EGD could potentially total about \$92, assuming a 5% reduction in the daily yield (\$97) for operating expenses, license fees, and advertising expenses. The 40% excise tax could potentially generate about \$37 daily per EGD. Assuming this yield, the excise tax could potentially generate about \$13.5 M annually from 1,000 EGDs. However, the extent to which the revenue yield would or would not grow proportionately with any increase in the number of EGDs operating is unknown.

It is also important to note that the fiscal estimates are not adjusted to account for the potential displacement of Riverboat Admission Tax and Wagering Tax revenue by wagering on EGDs at retail establishments in excess of illegal wagering that may already be occurring around the state. It is also unknown the extent that EGDs would reduce gross receipts to charity gaming organizations from bingo, pull tab sales and other charity gaming. Any reductions would be reflected in charity gaming license fees and revenue from the Charity Gaming Excise Tax imposed on the wholesale price of pull tabs, punchboards, and tip board sold to charity gaming organizations.

Penalty Provisions: The bill allows the IGC to impose a civil penalty on an organization holding any charity gaming license that possesses an EGD that is not approved by the IGC. The penalty is equal to \$5,000 for each violation. Penalties are distributed to the Charity Gaming Enforcement Fund.

Background: Current law permits a bona fide civic, educational, political, religious, senior citizens, or veterans organization to hold a charity gaming license for purposes of conducting charity gaming events. Allowable charity gaming events consist of bingo, charity nights, raffles, door prize events, festivals, and sale of pull tabs, punchboards, and tip boards. FY 2005 (the latest year available) license fees on organizations totaled about \$3.95 M. While 2,619 charity gaming licenses were issued in FY 2005 (the latest year available), only 850 annual bingo licenses were issued indicating the organization conducts bingo and other games, including pull tab sales, throughout the year. Organizations also use this license to only sell pull tabs throughout the year, while not conducting bingo. It is important to note that there are almost **3,200** social and fraternal clubs statewide that hold alcohol beverage retail permits.

Businesses that manufacture, distribute, or sell pull tabs, punchboards and tipboards to organizations within the state must obtain a manufacturer's or distributor's license. The manufacturer's license fee is \$3,000

annually, and the distributor's license fee is \$2,000 annually. In FY 2005, 16 manufacturer's licenses and 55 distributor's licenses were issued resulting in \$158,000 in revenue. In addition to the license fees, the Charity Gaming Excise Tax on pull tabs, punchboards, and tip boards is equal to 10% of the wholesale price of these devices when sold to organizations by distributors and manufacturers. The Charity Gaming Excise Tax resulted in approximately \$1.37 M in revenue during FY 2005.

License fee and excise tax revenue is deposited in the Charity Gaming Enforcement Fund to pay the charity gaming administrative costs incurred by the DOR. Revenue remaining in the Fund after payment of administrative costs is distributed quarterly to the Build Indiana Fund.

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: Indiana Gaming Commission.

Local Agencies Affected:

Information Sources: Vicki Stephens, Alcohol and Tobacco Commission, (317) 232-2436; *Charity Gaming Annual Report, FY 2005*, Department of State Revenue.

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